1996 BME

BROMLEY•MARR ECOS INC

1996 ANNUAL REPORT BROMLEY•MARR ECOS INC. PROVIDES INNOVATIVE WATER AND WASTE MANAGEMENT SOLUTIONS TO ITS OIL AND GAS, MUNICIPAL, AND INDUSTRIAL CLIENTS. THE COMPANY'S MISSION IS TO ASSIST ITS CUSTOMERS TO REDUCE THEIR WASTE MANAGEMENT COSTS BY OPTIMIZING THE USE OF EXISTING FACILITIES OR BUILDING NEW INFRASTRUCTURE THROUGH DESIGNING AND PRODUCING INNOVATIVE SEPARATION AND RECOVERY TECHNOLOGIES.

BROMLEY•MARR CURRENTLY OPERATES IN WESTERN CANADA, AND HAS BECOME WELL RECOGNIZED BY THE OIL AND GAS, PULP AND PAPER, AND PETROCHEMICAL INDUSTRIES IN THIS REGION FOR ITS ENGINEERING EXPERTISE. OVER THIRTY PROFESSIONAL, TECHNICAL AND ADMINISTRATIVE STAFF ARE EMPLOYED BY THE COMPANY. BROMLEY•MARR HAS OFFICES IN CALGARY, ALBERTA AND VANCOUVER, BRITISH COLUMBIA AS WELL AS RESEARCH FACILITIES IN REDWATER, ALBERTA. THE COMPANY'S COMMON SHARES BEGAN TRADING ON THE ALBERTA STOCK EXCHANGE ON SEPTEMBER 24, 1996 UNDER THE SYMBOL "BME".

Notice of Annual General Meeting

Bromley•Marr's Annual Meeting will be held on June 17, 1997 in Meeting Room A&B of the Bankers Hall Auditorium, in Calgary, Alberta at 3:00 pm (local time).

ENVIRONMENTAL COST OPTIMIZATION SERVICES

"ECOS" stands for Environmental Cost Optimization Services, and it is this concept that underpins the Company's business strategy. The principle objective of the ECOS concept is to lower the cost of waste management while simultaneously maintaining or improving the environmental benefit. By optimizing waste management processes through a combination of innovative thinking and technological innovation, Bromley•Marr can provide its clients with solutions that have both significant economic and environmental benefits. Essentially, this method creates a win-win situation.

The principle objective of the ECOS concept is to lower the cost of waste management while simultaneously maintaining or improving the environmental benefit

The two key tools Bromley•Marr uses to achieve this objective are:

1. optimization strategies and technologies for existing and new infrastructure
2. the use of a separation and recovery technology to develop products from waste and reduce the volume of residuals

The Company provides more indepth services than many of its competitors, and has adopted a new business approach that is proving to be very successful. Bromley•Marr's three tiered approach is to:

- **design and build leading edge separation and recovery facilities for clients at their sites**
- **provide clients with the ability to manage waste at their sites using its mobile equipment**
- **remove waste from clients' sites and provide services at Bromley•Marr's facilities**

Typically, other waste management companies only provide one or two of the above mentioned services. Bromley•Marr's advantage is that it has the design, research, and development expertise plus the equipment and facilities to ensure the lowest cost option to the client with the greatest environmental benefit.

REPORT TO THE SHAREHOLDERS

David E. G. Bromley
President and Chief Executive Officer

Bromley•Marr ECOS Inc. is pleased to present its first Annual Report to the shareholders following a tremendous year of growth. During 1996, the Company began development of a special waste management facility in Surrey, British Columbia and started developing two new plants at Bonnyville and Fox Creek, Alberta. In addition, Bromley•Marr experienced strong demand for its special services, and established a number of strategic relationships with industrial and municipal clients that have given rise to several important research projects. Bromley•Marr also developed two key mobile technologies for use at its clients' sites and at the Company's own facilities. Bromley•Marr's corporate evolution over the past year is highlighted by successfully taking the Company public on September 22, 1996.

An Exceptional Start

In its first year of operations, Bromley•Marr signed strategic agreements that should provide the Company with at least $6.0 million in annual revenue over the next four years. Revenue for 1996 exceeded $1.0 million which greatly surpassed the Company's expectations for this period. Bromley•Marr believes that this immediate success is due to its unique business approach. The Company is more than a traditional consulting firm and more than a typical contractor. It not only owns and operates its own waste management facilities, but also develops leading edge separation and recovery technologies and builds customized facilities. This has created two solid revenue streams that will support Bromley•Marr well into the future. Also, the Company is active in meeting the growing market demand for waste remediation services as opposed to providing environmentally outdated waste disposal services. As such, Bromley•Marr has the ability to create "good news" stories in terms of the economic and environmental benefits of its activities. Working exclusively to improve waste management processes is highly desirable because the Company's environmental impairment liability is limited to the time it takes to process waste materials through its facilities while its competitors that operate landfills, disposal caverns, landfarms or incinerators accumulate long term liability.

It is our unique business approach that gives us our competitive edge

Selected markets combined with the strength of our customer base ensures stability in our growth

Current Activities

Bromley•Marr is currently operating a permitted facility in Surrey, British Columbia that manages hazardous waste. This facility is operated under a joint venture agreement with TriArrow Industrial Recovery Inc. (TIRI) where each party shares 50% of the costs and revenues. Bromley•Marr and TIRI have signed an agreement with Mohawk Lubricants Ltd. (Mohawk), the largest collector and recycler of waste lubricating oil in British Columbia, through which they provide full services to 5,500 of Mohawk's customers in the auto aftermarket sector.

Environmental and development permits have been finalized for Bromley•Marr's two other facilities at Bonnyville and Fox Creek, Alberta. The Company has signed a 20 year contract with the town of Bonnyville to take over the operation of the Town's sewage treatment facility as part of a strategic plan. Bromley•Marr will build a sand cleaning operation at the sewage treatment facility, and the Town will use the clean sand over the next 10 to 15 years to fill its excess sewage lagoon capacity. Bromley•Marr signed a four year agreement with PanCanadian Petroleum Ltd. where the two companies will work together such that each company will develop sand management techniques and technologies that will allow each company to claim leadership roles. The Bonnyville Project is an excellent arrangement for the Company as it will generate significant cash flow and put Bromley•Marr in a position to aggressively pursue other business prospects. The Fox Creek facility will be developed to its full potential over the next three years. Bromley•Marr has developed an agreement with Amoco Canada Petroleum Company Ltd. where contaminated soil will be cleaned and then stockpiled for future use as clean fill material for areas where the original soil was excavated. A fourth facility is planned for the year 2001. This facility will either be similar to an existing facility but will service another geographic area, or be a new type of facility to service a niche waste stream.

With regards to special services, Bromley•Marr undertook a number of projects for both industrial and municipal clients. These projects applied innovative management techniques and state-of-the-art technology. In all cases, Bromley•Marr achieved results that enabled its clients to realize significant cost savings.

Excellent Market Potential

The market for waste management services is well defined and growing, particularly in the oil and gas and municipal sectors. Bromley•Marr's growth will emanate from increasing demand for its special services, and from the development or acquisition of facilities similar to its existing plants.

In Alberta alone, there is currently 2.7 billion dollars of assets in municipal water treatment plants and sewage treatment facilities. Most of these were constructed in the late 1970s and early 1980s, and are reaching the end of their 20 year life cycle. Upgrades and replacements are essential at a time when tax revenues are limited, so Bromley•Marr anticipates that demand for infrastructure optimization will increase substantially over the next few years.

The market potential of the facilities side of Bromley•Marr's business is outstanding

With regards to industrial waste management, regulations that have evolved over the past five years have prompted waste generators to focus on pollution prevention. For example, heavy oil producers cannot develop wells until a sand management plan is filed and approved by the appropriate regulatory authority. The Company has already been involved in numerous projects in response to regulatory requirements and demand is rapidly growing.

The market potential of the facilities side of Bromley•Marr's business is outstanding. The new Fox Creek facility will be providing services in a local market of approximately 10,000 well sites, 5,000 flare pits, and six gas plants over the next 15 years. The market, however, includes over 80,000 wells sites and almost 700 gas plants. It will not be difficult for Bromley•Marr to develop at least one more facility similar to Fox Creek over the next five years. At Bonnyville, the facility capacity will be a maximum of 200,000 cubic meters per year; yet, industry projections are that approximately 1,000,000 and 1,200,000 cubic meters of contaminated sand will be generated in the years 1999 and 2000. Bromley•Marr anticipates either building another sand management facility or expanding the current facility over the next five years. In addition, the Company is working with PanCanadian to develop new markets for the clean sand it will be producing from its plant.

Bromley•Marr is also working on two new waste streams where a facility would be required to manage these wastes. Initial estimates indicate profit margins similar to the Fox Creek and Bonnyville facilities.

A Significant Recent Development

Subsequent to year end 1996, Bromley•Marr entered into agreements to acquire 100% of CleanCare Corporation (CleanCare), subject to financing, due diligence, and regulatory approvals. CleanCare is an environmental waste management company based in the State of Washington with operations in Washington, Idaho, and Oregon, U.S.A. Successful completion of this acquisition will provide Bromley•Marr with access to the United States market and provide a strong new revenue and cash flow base.

Closing Remarks

Bromley•Marr is excited about the upcoming year and its future growth prospects. The Company anticipates continuing strong performance in 1997, and believes that it will create significant additional value for the shareholders. Bromley•Marr thanks its shareholders, Directors, employees, and customers for their enthusiastic support, and looks forward to sharing its success with all of the individuals and organizations involved with the Corporation.

Respectfully Submitted on Behalf of the Board of Directors,

David Bromley
President & Chief Executive Officer

April 28, 1997

ECOS in Action: *The Bonnyville Story*

Bromley•Marr will help resolve town's white elephant while cleaning sand from PanCanadian

The town of Bonnyville is getting the kind of deal you can't turn down. Years ago, anticipating fast growth, the town near Cold Lake, northeast of Edmonton, built a huge sewage lagoon. The boom fizzled and it was stuck with a white elephant that is costly to maintain.

Enter Bromley•Marr ECOS Inc. A Calgary firm with 30 employees, Bromley•Marr has announced it will build a $3 million to $5 million facility near the town's sewage treatment plant.

President David Bromley said his Company will buy sand residue from PanCanadian Petroleum Ltd., which is active in the Lloydminster and Provost areas.

The new plant will cleanse the sand, using Bonnyville's treated water. Bromley•Marr will remove oil and salt, and fill half the town's lagoon with the clean sand.

Bromley•Marr will earn between $45 and $100 per cubic meter hauling away PanCanadian's unused sand, and PanCanadian saves money previously spent to store sand.

In Bonnyville, the sewage lagoon budget will be cut in half, and Bromley•Marr will pay the town between $75,000 and $300,000 annually, depending on its water use.

"Anytime you can enter into a partnership with a private company to generate revenue at no cost to the town, it's a good deal", said Bonnyville Mayor Gerry Storoschuk.

The project will also provide as many as a dozen new jobs.

Bromley•Marr said it will take 10 or 20 years to fill the unneeded lagoon, depending on how quickly oilsands development spurs town growth.

Bromley•Marr has also signed another four-year deal with Calgary-based PanCanadian. The two firms will each invest as much as $200,000 in the first year to find new ways to market clean sand. About three researchers will get employment on the project.

Bromley•Marr said a potential market for the sand silica has already been identified, but refused to say more.

PanCanadian has guaranteed a margin of profit for Bromley•Marr, meaning the oil company has an incentive to fund uses and markets.

Calgary Herald, Tuesday, October 8, 1996

Bromley•Marr has strategic clients with a number of major industrial companies

PanCanadian Petroleum Ltd.

Western Star Trucks West Can Malt

Numac Energy Inc. Mohawk Lubricants Ltd.

Pan Canadian Petroleum Ltd. Numac Energy Inc. Mohawk Lubricants

Amoco Canada Petroleum Company Limited

Amoco Canada Petroleum Company Limited Syncrude Canada

Syncrude Canada West Can Malt

We are increasing our capacity to meet the needs of an expanding market

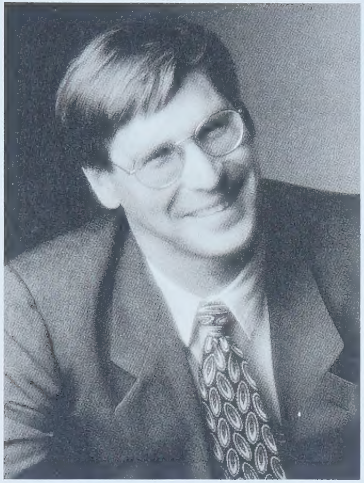
The Bromley•Marr Difference

Bromley•Marr believes that it offers its customers unique advantages in optimizing their waste management processes. The Company has determined the following three specific ways that it can ensure cost savings while simultaneously promoting environmental health:

FIRST Bromley•Marr offers turnkey design and build services. Typically, water treatment and waste management companies only delineate a problem and design a solution, then their client hires a contractor to implement the solution, e.g., to build a facility. This approach is often problematic because there are a significant number of conflict points that can arise between the consultant, the contractor, and the client, and the client often has to pay numerous mark-ups, administration fees, and in some cases, conflict resolution costs. With Bromley•Marr, this process is streamlined. The Company offers both consulting and contracting services to bring its projects to completion. It also provides field and facility services.

SECOND The Company is becoming highly recognized for its expertise in industrial and municipal water and waste management, and as a result, has been able to integrate waste management processes between the two. Bromley•Marr has obtained key ownership in the development of both municipal and industrial facilities to the benefit of both.The Bonnyville story is an excellent example of how this approach is very successful. (see ECOS in Action: The Bonnyville Story on Page 5)

THIRD Bromley•Marr is a leading technology developer, having successfully implemented separation and recovery technologies that not only reduce costs but also have environmental benefits. Simply put, if contaminants in water or waste can be separated such that only small residuals remain to be disposed of, then it is highly likely that expenses will decrease and the clean materials can be recycled. Bromley•Marr has an exceptionally talented group of individuals with a broad range of experience in this field, particularly in the separation of organics and metals from wastewaters and sludges, and the separation of salts, metals, and hydrocarbons from contaminated soils.



James B. Marr
Vice-President and Director

Facilities

Bromley•Marr currently operates one facility in Surrey, British Columbia, and is in the process of developing two more in Bonnyville and Fox Creek, Alberta. The Company also has two mobile units that can be used independently at the client's site or in conjunction with its facilities.

The Surrey facility uses separation and recovery technologies to treat hydrocarbon and metal contaminated wastewaters and sludges, as well as, oil filters and antifreeze waste streams. Customers are primarily associated with the auto aftermarket. This plant also offers recovery services for waste abrasive products such as sand blasting materials and foundry sand. The construction of this facility is scheduled to be completed in the second quarter of 1997. Operations are scheduled to commence in the field during the third quarter of 1997. Bromley•Marr's mobile water treatment facility will be based at the Surrey plant, and will be an important part of its operations.

The Bonnyville facility will clean sand from heavy oil wells by separating the hydrocarbon and salt residues. Facility capacity will be between 170,000 cubic meters and 200,000 cubic meters of sand per year and 60,000 cubic meters of oily wastewaters per year. Approximately 50% of the plant capacity is presold to four partners through contracts that range from three to four years. An agreement with one of the partners, PanCanadian, includes a research and development component that has given rise to two projects. The first is focused on targeting better methods for desanding tanks, and the second involves finding alternative markets for clean sand. Operations are scheduled to commence in 1998.

At Fox Creek, Bromley•Marr has obtained all of the required environmental and development permits to develop the facility. Part of the plant is completed, but the majority of the development is not anticipated until 1999. This facility will process hydrocarbon and salt contaminated soils from oil and gas flare pits so they can be reused as fill material. Before initiating full operations, Bromley•Marr will conduct a pilot project with Amoco Canada Petroleum Company Ltd. to test its Batch Thermal Reactor (BTR) technology as well as aggregation technology that was recently developed by the Canadian Association of Petroleum Producers. This contract will involve approximately 8,000 to 10,000 tonnes of contaminated flare pit soils and some contaminated sludges from Amoco's process ponds. The facility's capacity will be 50,000 to 60,000 tonnes per year of flare pit soils, 10,000 tonnes per year of process pond sludges, and 200 wellsite reclamations per year.

Special services are an important component of the Company's operations

Special Services

Bromley•Marr offers special waste management services that consist of custom designing and/or constructing facilities for its clients to optimize their existing waste infrastructure and/or upgrading their separation and recovery processes to reduce costs and increase the environmental benefit. The Company has developed a substantial oil and gas, industrial and municipal clientele who utilize these services, including Syncrude Canada, Western Star Trucks, West Can Malt, and the towns of Redwater, and Bonnyville, the Village of Alix and the city of Grande Prairie.

Over the next three years, Bromley•Marr will organize its personnel and mobile technical expertise into the following specialized areas:

- Coagulation and Chemical Separation
- Advanced Oxidation
- Membrane Separation
- Advanced Filtration
- Enhanced Aeration
- Mechanical Segregation

Special services are an important component of the Company's operations. Bromley•Marr is developing a number of strategic relationships with new customers through special projects, and is generating a significant revenue stream as a result. The use of Bromley•Marr's core technology group for special services ensures the firm maintains a highly qualified group of professionals who are well tuned to state of the art technology that provide both economic and environmental benefits. This knowledge base will not only be a benefit to Bromley•Marr's clients requiring special services but also to Bromley•Marr in the development, expansion and improvement of its own facilities.

This discussion and analysis should be read in conjunction with the financial statements of Bromley•Marr ECOS Inc. and the related notes contained in this Annual Report. The following is a summary of the Company's operating results for the year ended December 31, 1996 compared to the period of May 11, 1995, commencement of operations, to December 31, 1995.

George M. Murray
Chief Financial Officer

Industry Overview

The waste management business is essentially comprised of three groups of participants. These consist of waste generators, waste management companies, and waste disposal companies. Traditionally, the service industry has focused on waste disposal through either landfills or incinerators. In addition, waste generators have either tried to minimize the waste produced or have ignored it all together. This situation resulted in little technology development, gave rise to costly waste management practices, and in many cases, caused environmental damage and thus liability. However, regulations have recently become more stringent and the demand for environmental technologies has caused a major shift in the waste management business. Waste volumes and types are now closely scrutinized, and as a result, generators are far more motivated to invest in technologies that have significant economic and environmental benefits. A waste management company that can offer services to niche markets can often intercept the waste stream from end disposal facilities. Accordingly, such a waste management company is now experiencing strong demand for its services which are now considered to be essential by waste generators, and the growth opportunities for such a company are tremendous.

Revenues and Expenses

Revenues increased to $1,284,668 for the fiscal year ended December 31, 1996 from $275,050 for the eight month period ended December 31, 1995. The increase is attributable to strong growth in waste management consulting projects undertaken for clientele in the oil and gas, municipal, and industrial sectors in Alberta and British Columbia.

Operating costs increased to $451,976 (35.2% of revenues) in the fiscal year ended December 31, 1996, compared to $98,398 (35.8% of revenues) for the eight month period ended December 31, 1995, primarily as a result of the growth of Bromley•Marr's operations.

General and administrative costs increased to $672,761 (52.3% of revenues) in the fiscal year ended December 31, 1996 compared to $120,153 (43.6% of revenues) for the eight month period ended December 31, 1995. The increase in general and administrative costs reflects increased costs associated with the addition of professional technical and administrative personnel and two offices, as well as additional costs associated with becoming a publicly traded company.

Depreciation and interest expenses increased to $69,866 (5.4% of revenues) in the fiscal year ended December 31, 1996 compared to $26,795 (9.7% of revenues) for the eight month period ended December 31, 1995. The decrease on a percentage basis reflects increases in interest charges capitalized in 1996 for the development of capital projects.

Earnings

Earnings in the fiscal year ended December 31, 1996 increased to $59,565 (5.0% of revenues) as compared to $23,571 (8.0% of revenues) for the eight month period ended December 31, 1995.

Liquidity and Capital Resources

Cash flow from operations, before adjustments for changes in non-cash working capital items, increased to $143,901 in the fiscal year ended December 31, 1996 as compared to $39,726 for the eight month period ended December 31, 1995. In addition, the Company had cash on hand as at December 31, 1996 of $822,035 compared to a deficiency of $(11,618) from the prior year. The Company's working capital position improved to $757,012 as at December 31, 1996 from $22,159 in the prior year.

Capital expenditures, net of disposal proceeds, in the fiscal year ended December 31, 1996 were $917,911 up from $364,237 for the eight month period ended December 31, 1995. Expenditures in fiscal 1996 included $787,794 (1995 – $229,756) on the Company's waste management facilities and equipment and $154,401 (1995 – $209,172) on capital assets. Also in fiscal 1996, the Company completed a reverse takeover of Universal Empire Capital Corp., acquiring net assets of $246,408.

During 1996, the Company raised gross proceeds of $1,270,000 from a $500,000 Convertible Debenture financing and a $770,000 Special Warrant financing. In addition, the Company received $137,582 in long-term bank borrowings. The debt to equity ratio of the Company improved to 0.85:1 as at December 31, 1996 from 20:1 as at December 31, 1995. On April 25, 1997 all of the debentures were converted into common shares of the Company.

Outlook

The Company continues to develop a project consulting business serving the needs of its clientele in the oil and gas, industrial, and municipal sectors in Alberta and British Columbia.

Bromley•Marr's main focus in the waste management facilities area in 1997 includes the development of two oil and gas waste recovery facilities located in the Fox Creek region of north-west Alberta, and the Bonnyville region of north-east Alberta. In addition, the Company is developing, under a joint venture agreement with TriArrow Industrial Recovery Inc., a hazardous waste treatment facility in Surrey, British Columbia. The Company will require the completion of additional external financings for these projects.

AUDITOR'S REPORT

To the Directors of Bromley•Marr ECOS Inc.

We have audited the balance sheet of Bromley•Marr ECOS Inc. as at December 31, 1996 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The prior year's financial statements were audited by another firm of chartered accountants, who issued their report dated March 21, 1996 without reservation.

Calgary, Alberta
February 24, 1997
(except for Note 13 which
is as of April 25, 1997)

Deloitte Touche Tohmatsu

CHARTERED ACCOUNTANTS

Balance Sheet

As at December 31, 1996

	1996	1995
		(Note 1)
ASSETS		
Current		
Cash and short-term deposits	$ 822,035	$ –
Accounts receivable	278,293	134,256
Deposits and prepaid expenses	64,011	20,963
	1,164,339	155,219
Waste management facilities and equipment – Note 3	1,017,550	229,756
Capital – Note 4	188,104	99,098
Deferred costs – Note 5	21,361	25,361
	$ 2,391,354	$ 509,434
LIABILITIES		
Current		
Bank indebtedness	$ –	$ 11,618
Accounts payable and accrued liabilities	347,579	103,813
Current portion of capital lease obligations	10,379	9,289
Current portion of long-term debt	49,369	8,340
	407,327	133,060
Due to shareholders – Note 1	–	201,177
Capital lease obligations – Note 6	3,604	13,983
Long-term debt – Note 7	193,883	131,110
Debentures payable –Note 8	500,000	–
Deferred income taxes	–	6,133
	1,104,814	485,463
SHAREHOLDERS' EQUITY		
Share capital – Note 9	477,652	400
Special warrants – Note 9	725,752	–
Retained earnings	83,136	23,571
	1,286,540	23,971
	$ 2,391,354	$ 509,434

Approved on behalf of the board:

Director

Director

Statement of Earnings and Retained Earnings

For the year ended December 31, 1996

		1996		1995
				(Note 1)
Revenue				
Consulting	$	1,284,668	$	275,050
Expenses				
Operating		451,976		98,398
General and administrative		672,761		120,153
Amortization – capital assets		41,111		5,931
Amortization – deferred costs		12,725		4,091
Interest on long-term debt		16,030		16,773
		1,194,603		245,346
Earnings before income taxes		90,065		29,704
Income taxes – Deferred		30,500		6,133
Net earnings		59,565		23,571
Retained earnings, beginning of year		23,571		–
Retained earnings, end of year	$	83,136	$	23,571
Basic earnings per share	$	0.01		

Statement of Changes in Financial Position

For the year ended December 31, 1996

		1996		1995
				(Note 1)
Cash was provided by (used for):				
Operating activities				
Net earnings	$	59,565	$	23,571
Items not affecting cash:				
Amortization		53,836		10,022
Deferred income taxes		30,500		6,133
		143,901		39,726
Net changes in non-cash operating working capital balances		56,681		(51,406)
		200,582		(11,680)
Financing activities				
Long-term bank borrowings		137,582		142,125
Principal payments on long-term borrowings		(33,780)		(2,675)
Leases capitalized		–		29,825
Principal payments on capital leases		(9,289)		(6,553)
Debentures issued		500,000		–
Deferred finance costs		(8,725)		–
Shares issued for cash:				
On incorporation		–		400
On exercise of agent options		20,000		–
On exercise of directors options		16,000		–
Special warrants issued		770,000		–
Costs of issuing warrants		(67,214)		–
Reverse takeover transactions – Note 1				
Shareholders advances capitalized in 1996		–		201,177
Shares issued acquiring assets of Universal		246,408		–
Expenses of reverse takeover		(40,000)		–
Shares issued for services		20,000		–
		1,550,982		364,299
Investing activities				
Waste management facilities and equipment additions		(787,794)		(229,756)
Acquisition of capital assets		(154,401)		(209,172)
Proceeds from sale of capital assets		24,284		104,143
Deferred start-up costs		–		(29,452)
		(917,911)		(364,237)
Increase (decrease) in cash		833,653		(11,618)
Bank indebtedness, beginning of year		(11,618)		–
Cash and short-term deposits (bank indebtedness), end of year	$	822,035	$	(11,618)

For the year ended December 31, 1996

Note 1 Description of Business and Amalgamation

The corporation was incorporated under the Business Corporations Act (Alberta) on April 14, 1994 as 607286 Alberta Ltd. and subsequently changed its name to Bromley•Marr ECOS Inc. (Bromley•Marr) by Certificate of Amendment dated July 28, 1995. It commenced operations on May 11, 1995.

Effective September 3, 1996, Universal Empire Capital Corp. (Universal) acquired all of the issued and outstanding shares of Bromley•Marr in exchange for the issuance of 5,000,000 common shares to the shareholders of Bromley•Marr. Bromley•Marr had 3,750,000 shares outstanding prior to this transaction and as consideration for receiving the shares of Universal, the Bromley•Marr shareholders agreed to capitalize existing shareholder loans of $201,177, and accordingly, no repayment of such loans is required by Bromley•Marr. Such loans beared interest at prime plus 2%, were unsecured and had no specific terms of repayment.

Pursuant to an amalgamation certificate dated September 3, 1996, Universal and Bromley•Marr amalgamated. The net effect resulted in the former Bromley•Marr shareholders receiving 68.5% of the issued and outstanding common shares of the amalgamated corporation. The former shareholders of Bromley•Marr also received 1,250,000 warrants, convertible into common shares of the corporation on a one for one basis (see Note 9(d)).

This transaction is commonly referred to as a reverse takeover and has been accounted for using the purchase method. Therefore, in accordance with generally accepted accounting principals, Bromley•Marr is treated as the acquirer and Universal is deemed to be a continuation of Bromley•Marr and comparative figures for the prior period are those of Bromley•Marr. Bromley•Marr, which was previously a private corporation with a December 31 year-end, has financial information available for comparative purposes for the period May 11, 1995 to December 31, 1995.

A summary of net assets acquired and consideration given in the acquisition of Universal are as follows:

Net assets acquired:		
Current assets	$	276,338
Current liabilities		(29,930)
	$	246,408
Consideration given:		
Common shares	$	246,408
Excess of cost over net identifiable assets acquired	$	NIL

Note 2 Significant Accounting Policies

The financial statements of the corporation have been prepared in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximation. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Waste management facilities and equipment

The corporation capitalizes and defers all costs directly related to the development of waste management facilities and equipment. These costs include all construction, equipment, consulting and direct administration costs, including interest, associated with these projects. Any incidental revenue, including interest, reduces the amounts capitalized.

Amortization will be recorded on the straight-line method based on the assets estimated economic life. Amortization will commence once the asset becomes available for commercial use.

In the event that a development project is abandoned or deemed not to be commercially viable, the total of the deferred costs for this project will be expensed at that time.

(b) Capital assets and related amortization

Capital assets are stated at cost. Amortization is provided to apportion the assets over their estimated useful lives at the following annual rates:

Computer hardware	30% declining balance
Computer software	100% declining balance
Field equipment	20% declining balance
Furniture and equipment	20% declining balance
Leasehold improvements	5 years straight-line
Vehicles	30% declining balance

In the year when capital assets are acquired, amortization is based on one-half of the rate specified.

When capital assets are sold or scrapped, the cost of the asset and the related accumulated amortization is removed from the accounts and the resulting gain or loss is included in net income.

(c) Deferred costs

(i) **Start-up costs** – Deferred start-up costs are recorded at cost and consist of costs incurred during the initial start-up phase of the corporation prior to the commencement of commercial operations. Amortization is calculated on a straight-line basis over a three year period commencing August 1, 1995; and

(ii) **Financing costs** – Deferred financing costs are recorded at cost and consist of costs incurred in regard to obtaining the debenture financing. Amortization is calculated on a straight-line basis over the term of the debentures.

(d) Income taxes

The corporation follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming deductions in excess of the related amortization recorded in the financial statements.

(e) Revenue recognition

Revenue is recognized on a percentage of completion basis.

(f) Government assistance

Government assistance received with respect to the construction of waste management facilities has reduced the cost of the facilities.

(g) Earnings per share

Earnings per share has been calculated on the weighted average number of common shares outstanding in the year, assuming the 5,000,000 shares issued to the former Bromley•Marr shareholders, as part of the reverse takeover of Universal, were issued January 1, 1996. No earnings per share has been calculated for the year ending December 31, 1995 because the corporation was a private company and the calculation would not provide any useful information.

Note 3 Waste Management Facilities and Equipment

Waste management facilities and equipment which are under construction and development at December 31, 1996 are comprised of the following:

	Facilities	Equipment	Administration	1996	1995
Aggregator	$ –	$ 194,030	$ 7,162	**$ 201,192**	$ 102,977
Wastewater – Mobile Treatment Unit	–	205,111	14,094	**219,205**	21,294
Batch thermal reactors	–	47,669	1,767	**49,436**	25,580
Fox Creek oil and gas waste management facility	468,198	–	35,747	**503,945**	79,905
Bonnyville oil and gas waste management facility	33,525	–	10,247	**43,772**	–
	$ 501,723	$ 446,810	$ 69,017	**$1,017,550**	$ 229,756

Included in administration is interest expense of $43,026 (1995 – $nil), net of interest income of $12,210 (1995 – $nil).

Note 4 Capital Assets

	1996		1995	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	**$ 17,500**	**$ –**	$ –	$ –
Computer hardware and software	**38,774**	**12,944**	30,887	2,079
Field equipment	**56,706**	**8,889**	23,296	1,111
Furniture and equipment	**22,090**	**4,741**	18,985	792
Leasehold improvements	**9,000**	**900**	–	–
Vehicles	**89,799**	**18,291**	31,906	1,994
	$ 233,869	**$ 45,765**	$ 105,074	$ 5,976
Net book value		**$ 188,104**		$ 99,098

Included in computer hardware and software and furniture and equipment are assets acquired under capital leases of $29,825 (1995 – $29,825) with net book values of $18,942 (1995 – $28,160).

Note 5 Deferred Costs

	1996	1995
Deferred start-up costs	$ 29,452	$ 29,452
Deferred finance costs	8,725	–
Accumulated amortization	(16,816)	(4,091)
	$ 21,361	$ 25,361

Note 6 Capital Lease Obligations

	1996	1995
Obligations under capital leases	$ 13,983	$ 23,272
Less current portion	10,379	9,289
	$ 3,604	$ 13,983

Certain office and computer hardware equipment is leased under non-cancellable capital leases. This equipment may be purchased for nominal amounts on expiration of these leases. These leases expire at various dates to July 25, 1998 and bear interest at 11.25% per annum.

Future minimum lease payments under these capital leases are as follows:

1997	$ 11,524
1998	3,719
	15,243
Less imputed interest	1,260
	$ 13,983

Note 7 Long-Term Debt

	1996	1995
Bank loan bearing interest at prime plus 2.5%, repayable in monthly instalments of $2,833 plus interest commencing November 5, 1996, secured by a general security agreement covering all of the assets of the corporation, a guarantee of a related company and a postponement of claim by the shareholders	$ 164,331	$ 119,729
Bank loans bearing interest at an average rate of 8.35%, repayable in monthly instalments of $1,792 including interest, secured by vehicles.	78,921	–
Bank loan bearing interest at 11.25%, repayable in monthly instalments of $582 including interest, secured by a vehicle.	–	19,721
	243,252	139,450
Current portion	49,369	8,340
	$ 193,883	$ 131,110

Annual repayments of long-term debt due in each of the next five years are:

1997	$ 49,369
1998	$ 50,732
1999	$ 52,215
2000	$ 53,830
2001	$ 37,106

Note 8 Debentures Payable

The 10% unsecured debentures mature May 31, 1998. Interest is payable annually on May 31 of each year. The debentures are convertible at the option of the holder on the basis of one common share of the corporation for each $0.20 of principal indebtedness at any time up to the maturity date of the debentures.

The debentures are redeemable by the corporation, in whole or in part, at a price equal to the principal amount, together with unpaid and accrued interest. In addition, the corporation, at its option, may convert the debentures into one common share for each $0.20 of principal indebtedness. Included in accounts payable is $33,333 of accrued interest on these debentures.

Note 9 Share Capital and Special Warrants

Authorized:

Unlimited number of:

Common shares

	Number	Amount
Common shares:		
1995		
Issued on incorporation and balance		
December 31, 1995	3,750,000	$ 400
1996		
Reverse takeover transaction – Note 1		
Shares issued to original		
Bromley•Marr shareholders	1,250,000	201,177
Shares issued to Universal shareholders, net		
of costs of $40,000 (deferred income tax		
benefit of $13,667)	2,300,000	220,075
Issued for services	100,000	20,000
Issued on exercise of agent options	100,000	20,000
Issued on exercise of directors options	80,000	16,000
Balance – December 31, 1996	**7,580,000**	**$ 477,652**
Special warrants:		
Issued during 1996 and outstanding		
December 31, 1996, net of issue costs of		
$67,214 (deferred income tax benefit of $22,966)	770,000	$ 725,752

(a) Escrowed common shares

As at December 31, 1996, there are a total of 5,300,000 shares that are held under escrow agreements dated April 3, 1996 and September 3, 1996. The escrow agreement dated April 3, 1996 provides that 1,300,000 escrowed shares be released as to one-third thereof upon the first, second and third anniversaries of the completion date of the Major Transaction dated September 3, 1996 (Note 1). The balance of 4,000,000 escrowed shares held under the agreement dated September 3, 1996 provides that 2,000,000 shares will be released as to one-third on each of the first, second and third anniversaries of the agreement and the remaining 2,000,000 will be released from escrow on the basis of one escrowed share for each $0.20 of cash flow of the corporation.

(b) Stock options

As at December 31, 1996, the corporation has outstanding stock options issued to directors, officers and employees, convertible into common shares on a one for one basis, as follows:

Number of Options	Exercise Price	Expiry Date
150,000	$0.20	April 10, 2001
552,000	$0.75	September 27, 2001
702,000		

(c) Special warrant financing

The corporation issued 770,000 special warrants for cash consideration of $770,000. Each special warrant is convertible into one common share for no further consideration. These warrants are convertible into common shares of the corporation at any time. As part of this financing, 385,000 purchase warrants will be issued upon the conversion of the previously issued special warrants. Each purchase warrant entitles the holder to acquire upon exercise and payment of $1.50, at any time on the earlier of three months from April 25, 1997 and November 27, 1997, one common share of the corporation.

(d) Other warrants

In addition to the above, as at December 31, 1996, the corporation has 1,250,000 outstanding warrants, convertible into common shares of the corporation, on a one for one basis at an exercise price of $0.30 per warrant, if exercised by September 3, 1997 and increasing to $0.40, if exercised between September 4, 1997 and September 3, 1998.

Note 10 Related Party Transactions

During the year, the corporation paid consulting fees to individuals who are shareholders, officers and directors of the corporation and to companies which these individuals control of $149,500 (1995 – $82,787).

In addition, interest on long-term debt includes interest paid to a company controlled by a shareholder, who is also an officer and director, in the amount of $14,788 (1995 – $13,091).

Note 11 Commitments

The corporation has signed rental agreements for office premises, expiring at various dates, but no later than August 31, 2001, requiring minimum annual rentals of:

1997	$ 47,240
1998	$ 50,383
1999	$ 41,500
2000	$ 44,717
2001	$ 17,621

Note 12 Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the presentation adopted in the current year.

Note 13 Subsequent Events

On April 25, 1997, the corporation filed a prospectus to qualify the common shares issuable upon exercise of the special warrants, special purchase warrants and debentures.

David E.G. Bromley

President, Chief Executive Officer & Director

David Bromley has over 22 years of experience in municipal and industrial engineering, specializing in water and waste management facilities. He was most recently the President of TriWaste Reduction Services Inc. ("TriWaste"). TriWaste grew to generate $30 million in revenues per year by its second year of operations. His career highlights include developing the environmental operating guidelines for the petroleum industry in Western Canada, and providing expert testimony on hazardous waste volumes and the use of waste minimizing technology for the Public Hearings from the Alberta Special Waste Management Centre in Swan Hills, Alberta. Mr. Bromley holds an M.Eng in Chemical Engineering from McMaster University and a P.Eng and B.Sc. (Hon.) in Civil Engineering from the University of Toronto.

James B. Marr

Vice-President & Director

James Marr has over 12 years of environmental engineering experience in the following areas: mechanical design and inspection; municipal, industrial, and wastewater treatment, research design and planning, and mathematical modeling. He was previously the Operations Engineer for one of Canada's largest water treatment plants, and was also the Operations Manager for TriWaste's seven facilities. Mr. Marr holds an M.Sc. in Environmental Engineering, and a P.Eng and B.Sc. in Mineral Process Engineering from the University of Alberta.

George M. Murray

Chief Financial Officer

George Murray is a Chartered Accountant, and obtained this designation with the firm KPMG Peat Marwick Thorne. Mr. Murray also holds the U.S. CPA designation and is registered in the State of Illinois. He has over 17 years of experience in accounting, auditing, finance, taxation, and public companies. Mr. Murray has held senior positions in the distribution and construction related industries, and was previously a Listings Officer for the Vancouver Stock Exchange.

Douglas G. Irwin

Director

Douglas Irwin is a partner with Capital West Partners, an investment banking firm based in Vancouver, British Columbia. Mr. Irwin holds an M.B.A. from the University of Western Ontario and a B.A. from York University.

Eric M. Leslie

Director

Eric Leslie is the President of Merchant Equities Investments Inc., a private company that provides management and venture capital financing consulting services. He is also on the Board of Directors of six Alberta Stock Exchange listed companies. Mr. Leslie holds a B.A. from the University of Western Ontario.

David M. Thom

Director

David Thom is the Vice-President of Merchant Equities Investments Inc. He holds an M.B.A. from the University of Western Ontario, and a B.Sc. from Queens University.

Robert A. Lehodey

Corporate Secretary

Mr. Lehodey is a partner in the law firm of MacKimmie Matthews, and specializes in corporate and securities law. He holds a B.Sc. in Chemical Engineering from the University of Alberta and a L.L.B. from Dalhousie University.

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Stock Exchange Listing

The Alberta Stock Exchange
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Calgary, Alberta

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Bank of Montreal
Calgary, Alberta

Auditors

Dick Cook Schulli
Chartered Accountants
Calgary, Alberta

Solicitors

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